

31 Oct 2008

Centrica Interim Management Statement

Overall, Centrica continues to trade in line with expectations on a pre-tax basis. Full year earnings will also benefit from a lower effective tax rate driven by a one-off deferred tax credit.

As a result of the retail price increase announced in July, British Gas Residential saw a short term increase in customer churn. However sales of energy accounts remained high, with particular success in the fixed price propositions. Churn has now fallen to levels experienced before the price increase and in recent weeks the level of account sales has been ahead of customer withdrawal notifications. British Gas Residential currently has 15.6 million customer accounts on supply. Subject to the usual uncertainties caused by weather variations, second half operating margins are now expected to be ahead of those achieved in the first half of the year.

In Centrica Energy the gas production business has continued to perform strongly, with gas volumes anticipated to be around 10% ahead of 2007, although the recent easing in fourth quarter wholesale gas prices will have some impact. Losses in the legacy industrial and commercial contracts are expected to be lower than previously forecast if the decline in the fourth quarter wholesale gas price is maintained. The operating results of the power generation business have been materially impacted by unplanned outages in the second half of the year at the Peterborough and Spalding power stations.

British Gas Services and British Gas Business are both performing ahead of expectations. Centrica Storage has undergone a strong injection season, with the Rough reservoir now effectively full, and continues to meet profit expectations. In late September we acquired the Caythorpe onshore gas field which has planning permission for conversion to a storage field with a capacity of up to 7.5 billion cubic feet of gas. The total cost was £70 million, with an additional investment of around £100 million required to complete the conversion.

Difficult economic conditions in North America and the recent disruption to the power market caused by Hurricane Ike have held back Direct Energy, but this has been offset by the strengthening of the US dollar against sterling. Commodity price movements have had a one-off adverse impact on Oxxio in The Netherlands, which in turn has had a significant adverse impact on the overall European business.

The net interest charge for the Group remains low, at around £25 million. In September we successfully placed £750 million of sterling bonds, with £300 million maturing in 2018 and the remaining £450 million maturing in 2033. We continue to forecast an underlying Group effective tax rate of around 55% due to the high proportion of upstream profits. However the tax charge will benefit from a one-off deferred tax credit, now estimated at £60 million, due to a change in the treatment of decommissioning costs for certain gas fields.

The certain remeasurements gains reported in the Interim results for the period to 30 June 2008 have subsequently been negatively impacted by the movements in commodity prices and the margin cash held at 30 June 2008 has now largely unwound.

The next scheduled reporting event in the financial calendar for Centrica is the 2008 full year results on 26 February 2009.

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